



TENNESSEE REGISTRY OF ELECTION FINANCE

Contribution Audit of Randy Fairbanks Second Quarter 2006



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September 5, 2007

Members of the Registry of Election Finance
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Ladies and Gentlemen,

Transmitted herewith is the agreed upon procedures for the un-itemized contribution audit of Randy Fairbanks' Second Quarter Campaign Financial Disclosure Statement for his 2006 election campaign for the House of Representatives. This audit was conducted pursuant to the requirements of Section 2-10, *Tennessee Code Annotated*, the Comprehensive Governmental Ethics Reform Act of 2006.

The procedures were developed to aid the Registry of Election Finance in its responsibilities to monitor and enforce Tennessee's Campaign Financial Disclosure Law and Campaign Contribution Limits Law. The candidate is responsible for complying with campaign finance laws and the accuracy of campaign financial disclosures. The sufficiency of these procedures is solely the responsibility of the Registry's internal audit group. Consequently, we make no representation regarding the sufficiency of the agreed upon procedures described in the report for any other purpose than aiding the Registry.

This report is intended for the information and use of the Members of the Tennessee Registry of Election Finance as outlined; and is not intended to be and should not be used by anyone other than the Registry without understanding the objectives, purposes, and underlying assumptions. However, this report is a matter of public record.

Sincerely,

Jay Moeck, CPA, CFE
Audit Manager

STATE OF TENNESSEE
REGISTRY OF ELECTION FINANCE

Audit Highlights

Randy Fairbanks

2006 Second Quarter Contribution Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine Randy Fairbanks' compliance with certain provisions of campaign finance disclosure laws and regulations; compliance with certain provisions of campaign contribution limits laws and regulations; accuracy and completeness of the un-itemized contribution disclosures on his 2006 Second Quarter Campaign Financial Disclosure Statement; and to recommend appropriate actions to correct any deficiencies.

FINDINGS

1. Randy Fairbanks did not maintain adequate contribution records to report and verify campaign contribution activity. In order to comply with the reporting requirements of T.C.A. §§2-10-107(a)(2)(A)(i) and 2-10-107(a)(2)(A)(iii), Mr. Fairbanks is required to maintain adequate documentation.

2. Randy Fairbanks did not maintain adequate contribution records to verify his compliance with campaign limit statutes. As a result of the inadequate campaign records noted in finding 1, we could not determine Mr. Fairbanks' compliance with campaign limit statutes.

3. Randy Fairbanks did not follow the Registry rules for bookkeeping. Mr. Fairbanks did not follow the Registry rules for bookkeeping procedures. Although not required by statute, the Registry has developed guidance for candidates for maintaining their records of campaign activities. Mr. Fairbanks' adherence with the bookkeeping rules may have averted the other findings reported.

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INTRODUCTION

AUDIT AUTHORITY

In February 2006 the Tennessee Legislators and Governor Phil Bredesen enacted the “Comprehensive Governmental Ethics Reform Act of 2006,” which amended Tennessee’s campaign finance disclosure laws and duties of the Registry of Election Finance. The legislation established the audits of campaign disclosure reports. *Tennessee Code Annotated* (T.C.A.) §§2-10-206 and 2-10-212 authorize the Registry of Election Finance (Registry) to conduct audits of campaign finance disclosure statements filed with the Registry. The audit was initiated based on T.C.A. §2-10-212(i), which requires the Registry to audit any candidate that files a disclosure statement with more than 30% of the candidate’s contributions reported as un-itemized contributions and the un-itemized contributions were greater than \$5,000.

AUDIT PURPOSE

The Registry’s contribution audits were developed to assist and encourage candidate compliance with campaign disclosure laws. The audit process assists the Registry in providing timely and accurate campaign information to government officials and the general public. The Registry’s audits provide a tool to the Registry to evaluate the effectiveness of the campaign financial disclosure process. In addition, the audits assist the Registry with the enforcement of campaign finance limit laws and campaign finance disclosure laws. Finally, the audit reports are intended to assist the candidate and the State of Tennessee with promoting governmental accountability and integrity.

AUDIT SCOPE

Tennessee’s campaign financial disclosure law requires candidates to make biannual financial disclosures as of the date of the first contribution or first expenditure, whichever occurs earlier. The biannual report periods are from January 16 to June 30 and July 1 to January 15 of each year. During an election year, the disclosures expand to quarterly reports, pre-primary reports, and pre-general reports. This audit relates to disclosures made subsequent to the passage and approval of the Comprehensive Governmental Ethics Reform Act of 2006. The act was approved on February 15, 2006. In addition, the audit relates to only disclosure reports that meet the requirements listed in T.C.A. §2-10-212(i). Therefore, the audit reviewed only Mr. Fairbanks’ disclosures on his 2006 second quarter report.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Randy Fairbanks was a candidate in the August 3, 2006 primary election for the House of Representatives for district 31. Mr. Fairbanks filed an Appointment of Political Treasurer Statement with the Registry on April 6, 2006 appointing William Rogers as political treasurer.

The candidate's first financial disclosure for the 2006 campaign was the 2006 second quarter report filed on July 10, 2006. The candidate's concluding financial disclosure report for the 2006 election was the 2006 third quarter report filed on October 3, 2006. The 2006 third quarter report indicated no cash on hand, no outstanding obligations, and no outstanding loans. The candidate completed his reporting requirements for the 2006 election campaign on October 3, 2006.

OVERVIEW OF FINANCIAL ACTIVITIES

The following financial amounts are a summary of the financial disclosures made by the candidate. The summarized amounts are from the following disclosure reports: 2006 second quarter, 2006 pre-primary, and 2006 third quarter reports. As noted in the audit scope, we only audited un-itemized contributions from disclosures for the 2006 second quarter. The amounts displayed are for informational purposes only.

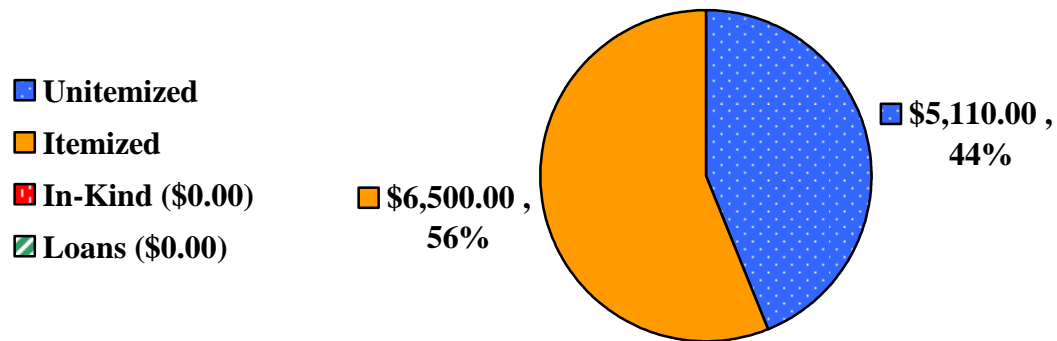
Summary of Financial Activity (Un-audited Amounts)

Cash on hand at April 1, 2006		\$0.00
Receipts		
Itemized	9,000.00	
Un-itemized	6,407.55	
Interest	0.00	
Loans receipted	0.00	
Total receipts		<u>\$15,407.55</u>
Disbursements		
Itemized	14,751.30	
Un-itemized	656.25	
Loans principal payments	0.00	
Total disbursements		<u>\$15,407.55</u>
Cash on hand at September 30, 2006		<u>\$0.00</u>
Loans outstanding at Sept. 30, 2006		\$0.00
Obligations at September 30, 2006		\$0.00
Total in-kind contributions received		\$0.00

CHARTS

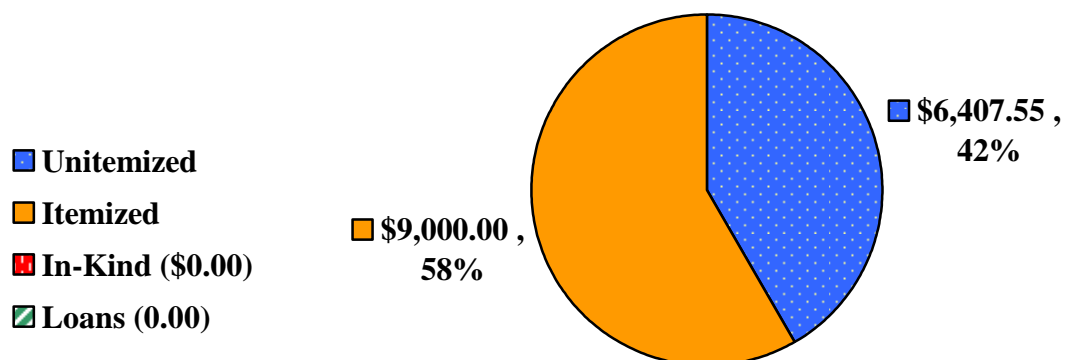
2006 SECOND QUARTER CONTRIBUTIONS

The following chart shows the contributions reported by the candidate in the 2006 second quarter report.



2006 ELECTION CAMPAIGN CONTRIBUTIONS

The following chart shows the contributions reported by the candidate for the 2006 election campaign.



OBJECTIVES, METHODOLOGIES, CONCLUSIONS

UN-ITEMIZED CONTRIBUTIONS AND RECEIPTS

Audit Objectives:

The objectives of our audit of un-itemized contributions were to determine whether:

- campaign contributions from individuals and Political Action Committees (PAC) were within limits;
- all contributions were from non-prohibited sources;
- all contributions received were reported, reported in the proper period, reported in compliance with T.C.A. §§2-10-105 and 2-10-107, and reported in compliance with the Registry's rules; and
- all contributions were supported by bank statements and deposit slips.

Audit Methodology:

The Registry obtained Randy Fairbanks' 2006 Second Quarter Campaign Financial Disclosure Statement to verify that the un-itemized contributions were greater than \$5,000 and 30% of the total contributions reported. We requested Mr. Fairbanks to provide supporting documentation for the un-itemized contributions of \$5,110.00 that he reported on his second quarter report. Mr. Fairbanks' campaign records for the second quarter included his bank statements and photocopied deposit slips. The following steps were performed on Mr. Fairbanks' campaign documentation:

- The documentation was reviewed to determine if the candidate's un-itemized contributions received from April 1, 2006 thru June 30, 2006 totaled \$5,110.00.
- A list of un-itemized contributions was prepared and compared to the candidate's bank statements to determine if the candidate deposited all funds into a campaign bank account and properly recorded the funds.
- A list of un-itemized contributions by contributor was prepared and compared to the candidate's itemized contributions reported during the election to determine if campaign contributions from individuals and PACs complied with campaign contribution limits, T.C.A. §2-10-301, et seq.

- An un-itemized contributions list was reviewed to determine if all contributions were reported, all receipts received were reported, all contributions were reported in the proper period, all contributions were in compliance with T.C.A. §§2-10-105 and 2-10-107, and all contributions were in compliance with the Registry's rules.

Audit Conclusion:

Randy Fairbanks' 2006 Second Quarter Campaign Financial Disclosure Statement reported un-itemized contributions greater than \$5,000 and 30% of the total contributions. The campaign records indicated that Mr. Fairbanks deposited the un-itemized contributions that he reported on his second quarter report into his campaign account. However, Mr. Fairbanks did not maintain adequate contribution records to report and verify campaign contribution activity or verify his compliance with campaign limits laws. (Findings 1 and 2) In addition, Mr. Fairbanks did not follow the Registry's rules for bookkeeping procedures, which could have mitigated or avoided the other findings noted. (Finding 3)

FINDINGS

1. Randy Fairbanks did not maintain adequate contribution records to report and verify campaign contribution activity.

Mr. Fairbanks did not maintain sufficient contribution records to report and verify the contributor and amount of each contribution received for his 2006 second quarter reporting period. Mr. Fairbanks only provided the Registry with his bank statements and deposit slips to support his campaign contributions. The bank statements and deposits slips only indicated the total amount deposited. Therefore, Mr. Fairbanks could not verify the contributions he reported on the Second Quarter Campaign Financial Disclosure Statement. In order to comply with the reporting requirements of T.C.A. §§2-10-107(a)(2)(A)(i) and 2-10-107(a)(2)(A)(iii), Mr. Fairbanks is required to maintain adequate documentation.

2. Randy Fairbanks did not maintain adequate contribution records to verify his compliance with campaign limit statutes.

As a result of the inadequate campaign records noted in finding 1, compliance with the following campaign limit statutes could not be verified for the un-itemized contributions reported on Mr. Fairbanks' Second Quarter Campaign Financial Disclosure Statement:

- T.C.A. §2-10-302 establishes limits on contributions to candidates from a person or multicandidate committee (PAC).
- T.C.A. §2-10-311(a) limits cash contributions to \$50 per election for each contributor.

3. Randy Fairbanks did not follow the Registry rules for bookkeeping.

Mr. Fairbanks did not follow the Registry rules for bookkeeping procedures. Although not required by statute, the Registry has developed guidance for candidates for maintaining the records of campaign activities. This guidance is not the sole method for maintaining records and does not include all variations of campaign activities; however, if Mr. Fairbanks had followed the guidance, he may have averted the findings noted above. Mr. Fairbanks did not implement the following Registry rules, which resulted in inadequate campaign records:

- Registry Rule 0530-1-3-.05 and 0530-1-1-.02(6) states that a candidate through his/her record-keeping system must be able to determine the aggregate amount of contributions received per election from each contributor. The Registry recommends that candidates and their committees maintain photocopies of all contribution checks received or in the alternative, a journal or listing of contributions.
- Registry Rule 0530-1-1-.02(8) states that a candidate should perform bank reconciliations that reconcile the bank account and the campaign records to the financial disclosure statements.

RECOMMENDATION TO CANDIDATE

Mr. Fairbanks should ensure the campaign adopts and maintains a record-keeping system to distinguish between contributions made for a primary election and those made for a general election. In addition, this record-keeping system should indicate the amount of contributions received per election from each contributor per reporting period and in the aggregate for the campaign. Mr. Fairbanks should consider the Registry's recommendation that candidates and their committees maintain copies of all contributions received (copies of campaign contribution checks) or in the alternative, a journal or listing of contributions. To verify that all campaign finance activities are properly recorded and reported, Mr. Fairbanks should ensure the campaign bank account reconciles to the campaign disclosure reports.

RECOMMENDATION TO REGISTRY

We recommend the Members of the Registry consider the findings for possible further action. We recommend the Registry approve the audit performed as being sufficient and complete. Finally, we recommend the Registry post the audit report to the Registry's web site notwithstanding whether a significant penalty is assessed, as outline in T.C.A. §2-10-212(f). The report and related findings will assist current and future candidates in understanding the audit process, the purposes of Registry rules, and types of procedures needed to comply with campaign finance laws.

RESOLUTIONS

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2006 contribution audit of Randy Fairbanks during the September 12, 2007 regular monthly meeting. The report contained two findings with recommendations for corrective actions. The Registry voted to accept and approve the audit report and to issue a show cause notice for failing to maintain adequate contribution records to report and verify campaign contribution activity. Subsequent actions by the Registry related to the show cause notice will appear in the subsequent board minutes.